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Jim

MEMORANDUM FOR: Deputy Director of Logistics

SUBJECT : Recommendations of the PPA/PRA Study Group-
Supply Division Comments

I GENERAL

A. This paper discusses the Supply Division (SD) position vis-a-vis the recommendations made by the PPA/PRA Study Group and contains a recommendation for your approval in the concluding paragraph. Any analysis of alternatives to our present PPA/PRA system demands that certain basic elements of procedural guidance be accepted if we are to maintain the integrity of the system of accountability adopted. They are defined as follows:

1. Stock:

a. Captive - Those items for which budget responsibility, materiel management, technical cognizance, and authority for drawdown are vested in one office.

b. Common - Those items which are utilized by two or more requisitioning activities (users) with materiel management vested in a single component and technical cognizance exercised by an appropriately designated office. Budget responsibility rests with the requisitioner (user).

2. Materiel Management: Quantitative accountability maintained through an adequate system of transaction and inventory control either manually or semiautomatically (GIM II/ICS).

3. Single Manager: Materiel management of specific items or classes of items, in an appropriately designated manager. (This does not include budget responsibility or technical cognizance, although these elements may be assigned to a single manager.)

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4. Budget Responsibility: Monetary estimates (budgets) prepared in response to authoritative Program Calls by the user.

5. Inventory Budgeting: Pertains only to "captive" stock.

6. Requisitioning Authority: That authority vested in components allowing appropriately allotted monies to be converted into personal property.

7. Direct Procurement: Requests for materiel not maintained in the Agency's "stock system" for which procurement action must be undertaken which results in a direct fund charge to the requisitioner (user).

8. Stock Allocation: Stocks reserved for a particular Agency component or project. (It does not pertain to materiel management, technical cognizance, or budget responsibility.)

B. After reviewing the recommendations made (in draft) by the PPA/PRA Study Group, we feel that the disadvantages of our present system and the extensive system revision required to accept a completely capitalized or revolving fund procedure does, at least at present, eliminate them from further consideration. Thus, only the "Direct Funding" and "Modified PPA/PRA" proposals are considered responsive to the Study Group charter. However, the "Revolving Fund" alternative and its interface with current and proposed ADP procedures, as they pertain to the property system, should be evaluated in depth with a view towards future consideration for adoption.

II DISCUSSION

A. As stated earlier, the status quo is an acceptable alternative; but, by the same token, not all of the deficiencies of our present system automatically translate as advantages for "Direct Funding." In the current atmosphere of "Resource" and "Zero Base" budgeting, estimates of future monetary needs will require looking more to the future with less credence put on past action. Notwithstanding, there are very definite advantages to "Direct Funding," albeit most of which will accrue to the maintenance of financial accountability. Conversely, eliminating the recording of direct purchases in the Financial Property Accounting (FPA) system will very definitely bring manpower savings to SD in the area of transaction coding and tape punching of machine input data. This saving, of course, would

also apply if we removed the processing of direct purchases through the PPA system as envisioned in the "Modified PPA/PRA" system. It is an accepted fact that any supply management system must include effective property control and utilization criteria. It is extremely doubtful that the "Direct Funding" concept would enable an acceptable level of control and materiel utilization to be established by reason of the fact that neither initial issue nor reissue would cause an appropriation charge. Any degree of control and utilization of materiel under "Direct Funding" would require clearly defined and practiced (enforceable) supply discipline measures. Lack of control on initial issue would most assuredly result in indiscriminate materiel drawdown. Further, reissue would, of course, be dependent on the materiel being returned when no longer needed. The only meaningful control on property is money in the hands of the requisitioner. A system of price adjustment based on the condition of an item would be far more enticing from a user's point of view.

B. Aside from the materiel management aspects, or lack thereof, in the "Direct Funding" concept, there is an additional burden that would be placed upon each budgeting component: i.e., each office would, in the preparation of its budget, be required to "guess" at what it must fund and what would be funded for it. Acceptance of inventory budgeting for "common" stocks (a requirement for all elements if the "Direct Funding" proposal is implemented) would not retain for us the measure of control and utilization we now have, much less achieve any anticipated improvement. SD cannot effectively discharge its responsibility of maintaining a viable, responsive supply system and at the same time permit indiscriminate drawdown. Today, we look at "unfunded PRA" and its effect on our materiel management system with a jaundiced eye. Under the "Direct Funding" concept, we feel we would be subscribing to such a system as a matter of common practice.

C. The current budgeting process can accept inventory budgeting where "captive" stocks are concerned. There are, as you know, many elements which must be considered in the development of a budget estimate. Briefly, they include, but are not limited to:

1. Active projects in the expenditure, budget, and out years.
2. Materiel usage during the expenditure, budget, and out years.
3. Demands experience.
4. Procurement conditions to include fabrication.

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5. Anticipated funds limitation.

6. Future trends in the Intelligence Community, including trends in national policy and improvements to the state of the art.

Naturally, materiel usage is of vital concern when dealing with any specific period of time covered by budget estimates with the ultimate judgment impacting on "what to buy." At the same time, continued investment in inventory for newly developed equipment and significant increases in inventory levels are of concern.

III RECOMMENDATION

It is feasible at the present time to accept inventory budgeting for "captive" stock and to eliminate the processing of all direct purchases through the FPA (PPA/PRA) system. Therefore, it is recommended that inventory budgeting for "captive" stock be incorporated into the Study Group's proposal titled "Modified PPA/PRA" and that this system be adopted.

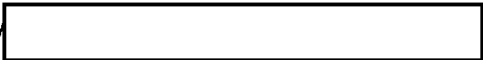

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